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The President's Daily Brief

December 20, 1976

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FOR THE PRESIDENT ONLY

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ISRAEL: Prime Minister Rabin's decision to break with his conservative National Religious Party coalition partner is likely to advance the timetable for holding Israel's national elections, now scheduled for next October.

The departure of his coalition partner leaves Rabin in charge of a minority government controlling only 57 of the 120 seats in the Israeli Knesset.

Rabin is likely to demand early elections in hopes of forestalling a challenge to his position by his principal rival in the Labor Party, Defense Minister Peres, and undermining the growing strength of Yigael Yadin's newly created Democratic Movement. Rabin may be calculating that the Labor Party will now close ranks around him in order to avoid a major internal power struggle that would further erode the party's popular support.

Although Rabin's decision was based on domestic considerations, his action will make it almost impossible to reconvene the Geneva conference by March 1977.

It is likely to take at least three months to prepare for new elections should Rabin call them. The Israeli Prime Minister almost certainly will argue that he has no mandate to commit Israel to peace negotiations before the elections are held.

Rabin's move is likely to have little impact on the Arabs' overall negotiating strategy. They probably will continue to press for a resumption of talks, possibly before and certainly immediately after the Israeli elections. The Arabs may even be encouraged by the prospect of earlier elections, on the assumption that once the voting is out of the way the Israelis will have no excuse for delaying the negotiating process.

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SYRIA-EGYPT: *Syrian President Asad and Egyptian President Sadat, now meeting in Cairo, will probably reach a tactical agreement on the direction in which they want to move in coordinating negotiating strategies, enhancing Arab solidarity, and cementing bilateral ties.*

Sadat, who is under more serious economic and political pressures than Asad, is banking on some negotiating progress within the coming year to shore up his domestic position and refurbish his Arab leadership credentials.

Sadat has succeeded in recent weeks in gaining Asad's acknowledgment that he should take the lead in formulating the Arabs' negotiating strategy. The Egyptian President is likely now to try to determine whether Asad accepts Egypt's negotiating objectives--an end to belligerency in exchange for the establishment of a Palestinian state and Israeli withdrawal to the 1967 borders. Although Asad probably agrees with these objectives, he is less optimistic than Sadat about the prospects for achieving such an agreement.

Asad is likely to press for closer military cooperation and encourage Sadat to improve his relations with the USSR in order to reopen the Soviet military supply line and strengthen the Arabs' military options in case negotiations fail. Asad believes that Sadat has seriously reduced his room for maneuver by cutting his ties with the Soviets and weakened the Arabs' negotiating position by relying on US diplomacy.

The future role of the Palestine Liberation Organization is almost certain to figure prominently in the current discussions. Sadat is likely to reiterate his opposition to any move to unseat PLO chief Arafat that would weaken Egyptian influence within the PLO.

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The two leaders will probably try to find a way to force the Palestinians to moderate their position, in an effort to ensure that the PLO does not become an impediment to negotiations and to make it difficult to deny the PLO a role in the Geneva conference.

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China probably has begun to liquidate some of its domestically held gold reserves.

Over the past month the London branch of the Bank of China entered the London and Zurich forward gold markets for the first time and sold 15 metric tons of gold for \$63 million.

Peking's expectation that gold prices will fall is probably the major factor in these sales, but other reasons could include a desire to change the composition of its reserves and a need to prepare for debt service obligations due next year.

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China's domestic gold reserves consist of about 213 tons purchased in Western Europe in the late 1960s plus an unknown amount from domestic production. The amount sold thus far can be absorbed easily by the market.

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Record wheat harvests and overall sluggish demand have depressed world wheat prices and increased competition among exporters in the international market.

The International Wheat Council is estimating world wheat production at 410 million tons for the 1976/77 marketing year--a 16-percent increase over 1975/76 levels. The Council estimates that import demand for wheat will fall to 60 million tons this year from the 1975/76 level of 67 million tons.

Faced with a smaller market and large surplus, some exporting countries have turned to price reductions and have suspended export taxes to promote wheat sales. Argentina has suspended its wheat export tax, reduced its prices, and devalued the peso in an effort to capture a larger share of the market, especially in South America. Argentine wheat delivered to Western Europe is currently priced \$8 to \$12 per ton cheaper than US wheat.

There is market speculation that the Soviets may substitute Argentine wheat for as much as 500,000 tons of US corn. US sales to Eastern Europe may be similarly affected.

Canada, a very aggressive seller during its summer and fall harvest season, has since backed off somewhat. With an exportable surplus of 8 million tons, the Australians should become more aggressive in the international wheat market.

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